FortChicago

October2000

no small feat

1999 ANNUAL REPORT Fort Chicago Energy Partners L.P.

pen

for business

no small feat

What began as an idea, will soon be a reality.

It has been no small feat. More than five years ago, the idea was sparked for a new link between western Canadian natural gas and North American markets. The Alliance projects were born.

In early 1999, the Alliance Pipeline and Aux Sable Facilities were given the regulatory go-ahead after a series of hearings, environmental reviews, landowner consultations and other key approvals. Construction began on May 17, 1999 when crews laid out the first sections of steel pipe for the mainline system. During that summer, major progress was made on the mainline in the United States and Canada. Construction also began on the lateral system in northwestern Alberta and northeastern British Columbia in late 1999, where climatic and environmental conditions were necessary to move heavy equipment and to protect the muskegs and wetlands.

Plans for the summer of 2000 call for the completion of the mainline and the compressor station sites. The final phase includes testing of the pipeline and compressors, inspection and start-up. The land along the pipeline route will be re-seeded, contoured and restored.

no small feat

Only 18 months after the first welds, and thousands of kilometres of pipeline and manpower hours later, the Alliance projects are poised for service. The achievement will be applauded by many stakeholders – oil and gas producing companies, associated pipelines, investors, federal and provincial governments, refiners and consumers.

Mark your calendars October 1, 2000. It's a date.

Letter to Shareholders

The Alliance projects took a major step towards their realization when construction began in 1999. Each of these unique projects – the $4.6 billion Alliance Pipeline and the U.S. $400 million Aux Sable Facilities – remains close to budget and on schedule to meet the expected joint in-service date of October 1, 2000.

Fort Chicago Unitholders will participate in the Alliance projects through the partnership's 26-percent ownership position. Investors can anticipate the beginning of cash flow when the projects' operations commence in 2000. With a $530 million equity commitment, our Partnership is involved in one of the largest energy projects ever undertaken in the world, and our Unitholders will benefit from the ongoing cash distributions.

While 1999 was an important year in terms of progress, the year 2000 will mark the most significant achievement for the projects – completion and start-up. When natural gas begins to flow from northeastern British Columbia and northwestern Alberta, western Canadian natural gas producers will face unprecedented opportunities such as increased access to new markets, more competitive prices for natural gas and associated liquids, and competitive transportation tolls.

KEY EVENTS

Construction during 1999 resulted in completion of approximately 60 percent of the Canadian mainline pipeline, and more than 85 percent of the United States portion of the mainline. For the Aux Sable Facilities, major equipment was delivered to the site late in the year, and final fabrication and construction completion are expected in the third quarter of 2000. Upon completion, the Aux Sable Facilities will be one of the largest natural gas liquids plants in North America.

In addition, Aux Sable entered into a long-term ethane supply contract with Williams Energy Marketing and Trading Company ("Williams") in the first quarter of 2000. Williams has agreed to purchase all of the facilities' ethane production. Williams has also demonstrated commitment by increasing its ownership in the Alliance projects to 14.6 percent. Furthermore, Aux Sable has in place the necessary distribution and marketing arrangements and plans for its propane and butane production.

OVERVIEW OF THE PROJECTS

The Alliance Pipeline is designed as a high-speed energy pipeline capable of transporting liquids rich natural gas at high operating pressures. The Alliance Pipeline will provide an efficient, cost-effective link for western Canadian natural gas and natural gas liquids to the U.S. midwest and eastern consumption areas. The Pipeline will initially carry 1.325 billion cubic feet per day of natural gas and associated liquids to a market "hub" at Chicago where it will enter the integrated U.S. pipeline grid that carries 60 billion cubic feet of gas per day to markets. In the future, the Alliance Pipeline can be expanded at an estimated cost of $500 million to transport 1.825 billion cubic feet per day.

The Aux Sable Facilities will consist of natural gas liquids extraction, fractionation and delivery facilities at the terminus of the Alliance Pipeline near Chicago. The approximately U.S. $400 million project will consist of a two-train 2.1 billion cubic feet per day facility with three main components:

- the extraction of the C2+ stream, or higher value natural gas liquids associated with the gas – ethane, propane, butane and condensate;
- the removal of the ethane for sale under the long-term Williams contract; and
- the "fractionation" to separate the other components of propane, butane and condensate for sale to regional markets. This will include storage and rail loading facilities, and contractual arrangements to handle excess volumes in the lower demand summer period.

HISTORY

The Alliance projects began as a shared vision among a group of western Canadian natural gas producers who foresaw the need for a new pipeline. For many years, there was a lack of natural gas pipeline capacity from Western Canada to the enormous U.S. midwest and eastern consumption markets. This factor, combined with a significant discrepancy in the supply/demand balance for natural gas, had contributed to a "made in Alberta" gas price. In addition, there has been a perceived need by Canadian gas producers for competitiveness and operational efficiencies among pipelines to ensure the lowest possible tolls. These circumstances led to a proposal for the Alliance Pipeline, with original ownership including 22 producing companies. Control of the Alliance projects has evolved to include five owners, the majority of which are pipeline companies with interests in a variety of energy-related activities.

The Alliance pipeline projects will provide access for western Canadian natural gas producers to key U.S. markets. With the additional export capacity, it is believed that the differential between the NYMEX price and the Alberta price of natural gas will move to reflect more closely the transportation differential between the market centres. The development of new northern natural gas pipelines over the next decade which could affect differential prices only reinforces the need for the Alliance Pipeline.

The continued commitment of producing companies is evidenced by the 37 shippers who have signed 15-year contracts representing 98 percent of the Pipeline's capacity. Higher oil and gas netbacks for the western Canadian producing companies should bode well for the industry and the Alliance Pipeline in particular. In addition, the economics of the liquids extraction plant have improved substantially as a result of the strengthening of crude oil prices.

SUMMARY

As we prepare for the completion and start-up of the Alliance projects in 2000, Western Canada's natural gas industry is on the threshold of new opportunities. Fort Chicago Unitholders also have an unprecedented opportunity. Our investors are involved in the only "pure play" investment in a new pipeline and associated natural gas liquids facilities – projects of significant scale. Consequently, Unitholders are expected to achieve strong future cash distributions and continued growth. The management of Fort Chicago remains committed to its mandate – to ensure the certainty of the Partnership's income stream from both the Alliance Pipeline and the Aux Sable Facilities.

no small feat

Guy J. Turcotte
CHAIRMAN AND C.E.O.

Stephen H. White
PRESIDENT AND C.F.O.

MARCH 17, 2000

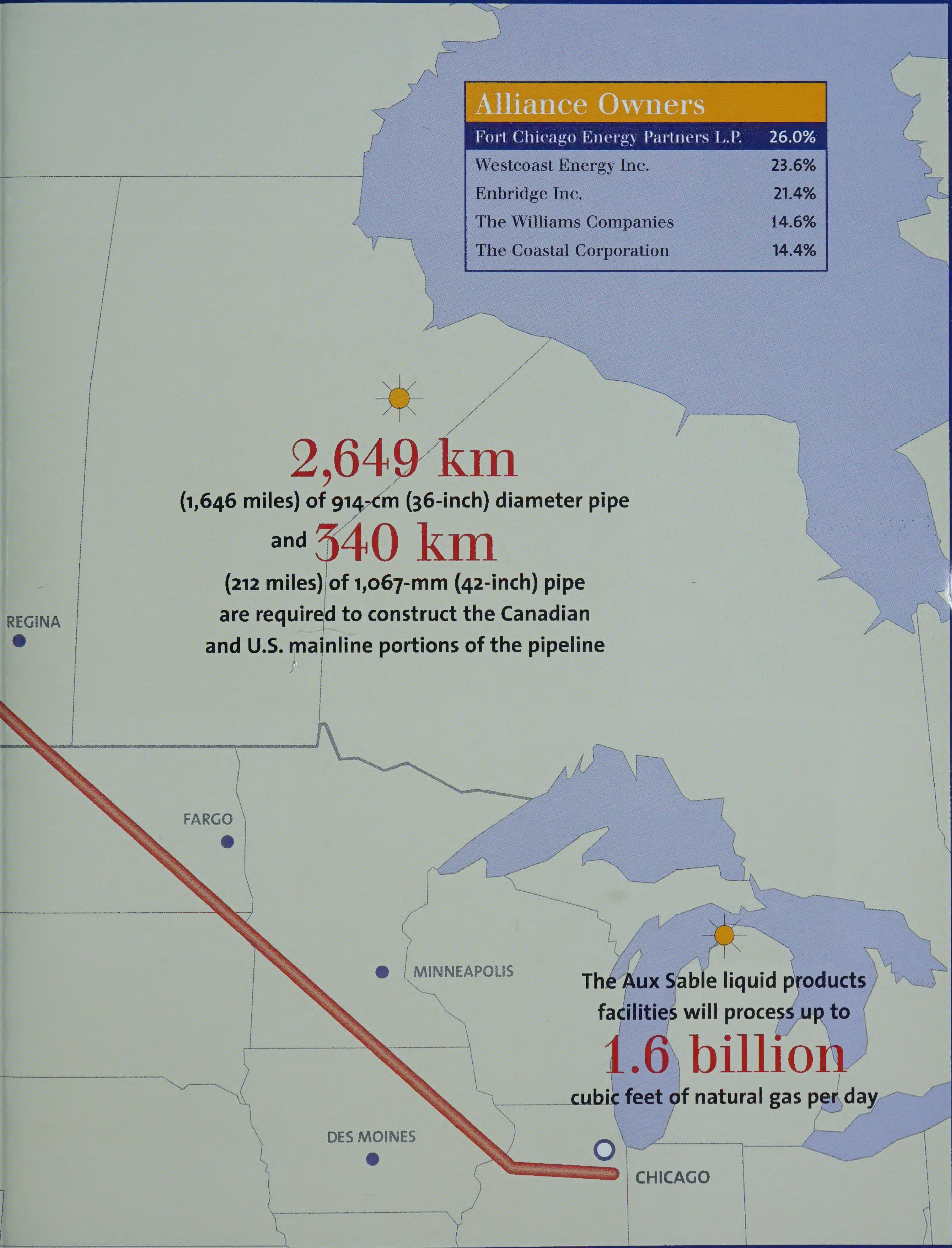

2,988 km
(1,857 miles): Mainline
FORT ST. JOHN
14
Mainline Compressor Stations
(7 Canada; 7 U.S.)
EDMONTON
CANADA
6
Lateral Compressor Stations
in Northeastern B.C. and
Northwestern Alberta
CALGARY
The Alliance Pipeline mainline
will require approximately
250,000 welds
UNITED STATES
410 metric
tonnes
of welding wire is required
to weld the joints of the
Alliance Pipeline mainline
PIPELINE ROUTE

Alliance Owners

Alliance Owners	
Fort Chicago Energy Partners L.P.	26.0%
Westcoast Energy Inc.	23.6%
Enbridge Inc.	21.4%
The Williams Companies	14.6%
The Coastal Corporation	14.4%

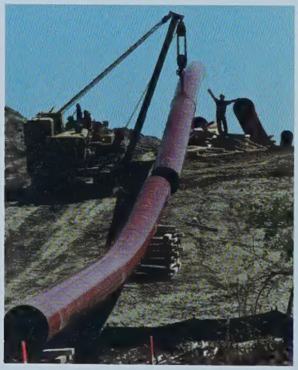
2,649 km
(1,646 miles) of 914-cm (36-inch) diameter pipe
and **340 km**
(212 miles) of 1,067-mm (42-inch) pipe
are required to construct the Canadian
and U.S. mainline portions of the pipeline

The Aux Sable liquid products facilities will process up to
1.6 billion
cubic feet of natural gas per day

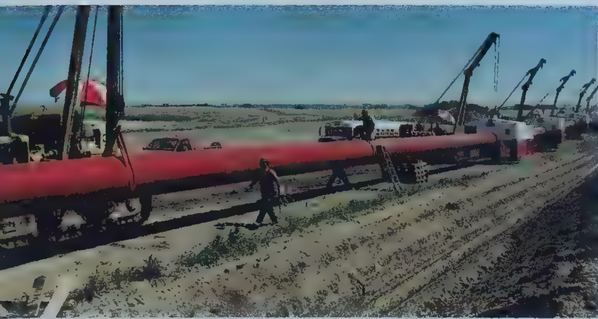


03/99
land clearing

07/99
hauling and stringing



08/99
trenching



08/99
welding
◁

08/99
lowering-in
▷

08/99
backfilling
▷

no small feat

09/99
land restoration
▽

Aux Sable Facilities

The Aux Sable Facilities are world-scale natural gas liquids (NGL) extraction and fractionation facilities being constructed to initially process up to 1.6 billion cubic feet of natural gas per day. They are expected to initially recover 70,000 barrels per day (bbls/d) of NGL, consisting of 40,000 bbls/d of ethane, 19,000 bbls/d of propane, 8,000 bbls/d of butane (normal and iso-butane) and 3,000 bbls/d of pentanes plus.

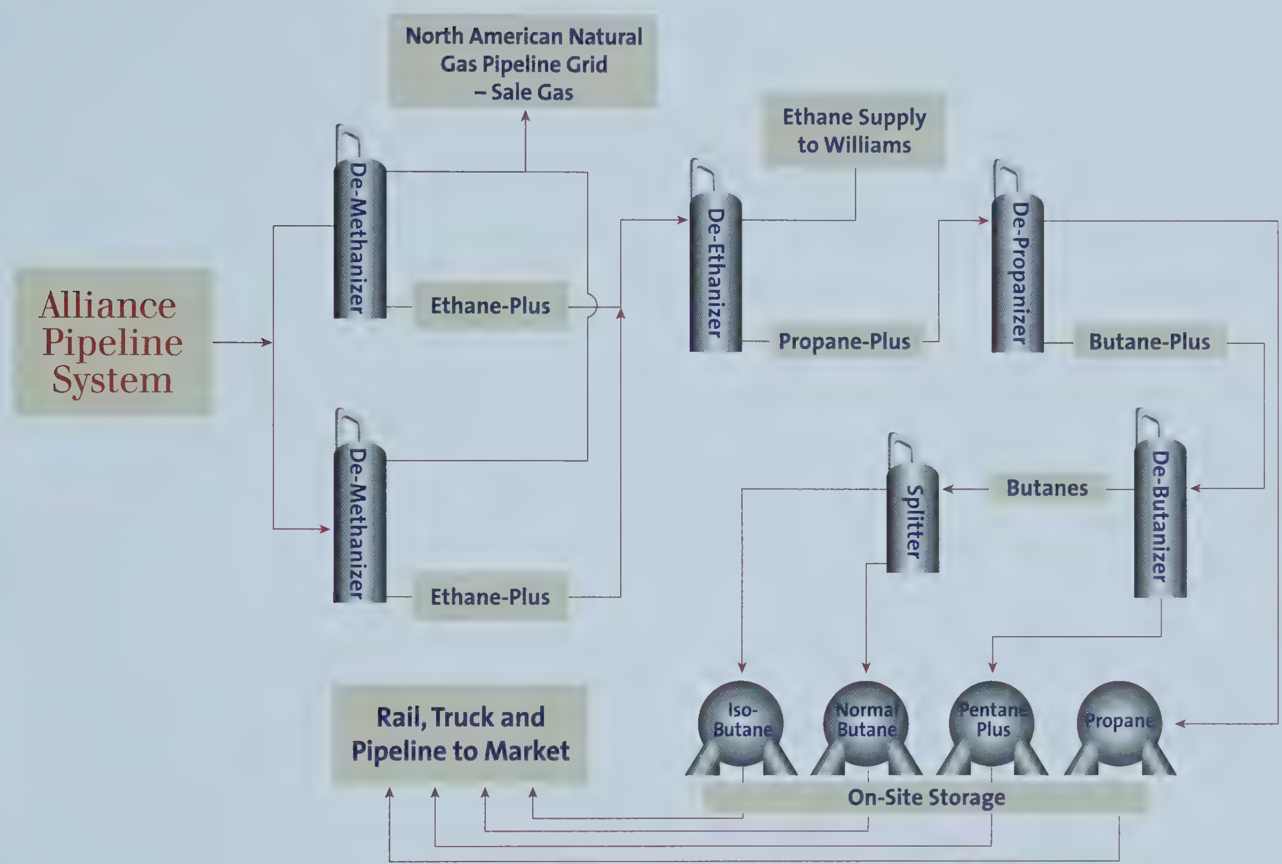
When in operation, Aux Sable will be one of the largest facilities of its kind in the U.S. It will become a significant propane supplier for the U.S. midwest, particularly for the state of Illinois and its neighbouring states. The ethane will be used as petrochemical feedstock. The plant will be connected to Williams' NGL pipeline with capability to deliver ethane to Midcontinent and Gulf Coast petrochemical markets. The butane and pentanes plus will be used by local refineries in the Chicago area.The facilities will connect with existing product pipelines that will also make the NGL available elsewhere in the United States and Canada.

Natural gas used by residential and commercial consumers consists almost entirely of methane. In natural gas reservoirs however, methane is typically found in combination with heavier hydrocarbons such as ethane, propane, butanes and pentanes plus that can be extracted as a liquid. These natural gas liquids are used directly as energy products and as feedstock for the petrochemical and crude oil refining industries. Ethane is used almost exclusively for petrochemical feedstock. Uses of propane include home and industrial heating, crop drying, cooking, and motor fuel. Butanes are used in gasoline blending. Pentanes plus is used as a refinery feedstock to make gasoline. All NGL can be used in the petrochemical industry as a feedstock for the production of ethylene, propylene, butadiene and other derivatives. These intermediate compounds form the raw materials for end use products such as polyethylene, rubber, plastics, solvents, and foam materials. Considering its uses, the overall level of economic activity and weather conditions provide the strongest influences on the demand for NGL.

Presently, Alberta produces more NGL than there are markets within the Province and the surplus is shipped to Eastern Canada and the U.S. midwest. In addition, surplus ethane is left in the gas stream and is sold as natural gas. Therefore, the Aux Sable Facilities will provide an incremental market for a portion of this surplus ethane that exists in Alberta that is presently sold as natural gas for no incremental benefit.



Aux Sable Plant Schematic



DESCRIPTION OF THE FACILITIES

The Aux Sable Facilities will serve two primary functions: the extraction (processing of gas and recovery of NGL) and the fractionation of NGL mix into specification products together with the storage, distribution and marketing of the specification NGL products.

The extraction component consists of:

• two extraction trains, each with the capability of processing approximately one billion cubic feet of natural gas per day.

The fractionation component includes:

• a de-ethanizer: for recovering ethane for sale under the Williams supply contract;

• a de-propanizer: for recovering propane for farming, industrial, commercial, automotive and retail requirements; and

• a de-butanizer and butane splitter: for recovering butanes and pentanes plus for gasoline blending.

Other facilities will also be built on-site including:

• storage for 200,000 barrels of NGL products;

• rail tank car loading facilities; and

• NGL pipeline interconnections.

no small feat

Management's Discussion and Analysis

Financial Highlights

NET INCOME FOR THE PERIOD	1999	1998
Net income	**$ 27,046,000**	$ 22,229,000
Net income per Class A Unit	**$ 0.41**	$ 0.34

FINANCIAL POSITION AS AT DECEMBER 31	1999	1998
Cash	**$ 81,002,000**	$ 229,805,000
Investment in Alliance	**$ 377,347,000**	$ 168,596,000
Partners' equity	**$ 429,453,000**	$ 401,829,000
Class A Units outstanding	**66,100,829**	66,003,609

GENERAL OVERVIEW

Fort Chicago Energy Partners L.P. ("the Partnership" or "Fort Chicago") is a limited partnership formed to acquire the interests in the Alliance projects previously held by Chauvco Resources Ltd. ("Chauvco"), Summit Resources Limited ("Summit"), and Beau Canada Exploration Ltd. ("Beau").

The Alliance projects consist of two integrated components. The Alliance Pipeline project involves the design, construction and operation of a 3,000-kilometre mainline natural gas pipeline from northeastern British Columbia to a delivery point near Chicago, Illinois. The Aux Sable Facilities involve the design, construction and operation of natural gas liquids extraction, fractionation, storage and transportation facilities located near the terminus of the Alliance Pipeline.

Fort Chicago holds an approximate 26 percent in the Alliance projects. The expected in-service date for the Alliance Pipeline and Aux Sable Facilities is October 1, 2000.

SIGNIFICANT EVENTS IN 1999

The most significant event affecting Fort Chicago was the final approval from the regulatory authorities in Canada and the United States to commence construction of the Alliance Pipeline. These approvals resulted in the following financial and operating events taking place during 1999.

• The signing of the transportation contracts with the shippers on the Alliance Pipeline;

• Commencement of construction activities that occurred in Canada in February, followed by commencement of pipe laying activities in the U.S. in May and Canada in June;

• The completion of all the conditions to drawing on the Alliance Pipeline debt facilities. As a consequence, the Partnership was not required to invest equity capital in the Alliance Pipeline for most of 1999 until the 70:30 debt-to-equity ratio was achieved; and

• Completion of downstream contracts for the sale of the ethane and a portion of the propane production from the Aux Sable Facilities.

RESULTS OF OPERATIONS

During 1999, the Partnership earned interest income of $9.2 million, down from $14.9 million in 1998, the result of lower cash balances held by the Partnership. Administration expenses were virtually unchanged at $1.3 million versus $1.4 million in 1998. Finance expenses were $5.4 million and reflect the standby fees on the debt facility that was established late in 1998, interest on borrowing utilized to finance the Aux Sable Facilities and fees for Letters of Credit that have been posted to secure the Partnership's equity commitments to the Alliance projects.

Depreciation and amortization expense has increased as a result of the amortization of the costs to arrange the debt facilities in 1998. Taxes of $0.9 million reflect the U.S. Taxes payable on interest income in the United States.

Equity income of the Alliance Pipeline project has increased from $8.7 million to $26.7 million as result of higher earning in the Alliance Pipeline project. Alliance recognizes the allowed Allowance for Funds Used During Construction ("AFUDC") that is included in the rate base for tariff purposes. AFUDC was much higher in 1999 as a result of higher equity capital invested in the Alliance Pipeline project. Fourth quarter AFUDC was lower than projected due to a one-time retroactive reduction in the AFUDC as a result of the lower expected allowed return.

LIQUIDITY AND CAPITAL RESOURCES

The Partnership has been capitalized with equity capital of $380 million and has arranged a debt facility of approximately $145 million of which $115 million was undrawn at December 31, 1999. At start-up of the Alliance Projects, the Partnership will have debt of approximately $115 to $120 million assuming no debt is incurred directly by Aux Sable.

EQUITY CAPITAL COMMITMENTS TO THE ALLIANCE PROJECTS

The Partnership, together with the other owners of Alliance, have provided irrevocable equity commitments to fund approximately 30 percent of the currently estimated construction costs of the Alliance Pipeline project (including a cost overrun amount) and 100 percent of the currently estimated construction costs of the Aux Sable Facilities (including a cost overrun amount). The Partnership has equity commitments of Canadian $71.7 million and U.S. $81.6 million (approximately $190 million) remaining at December 31, 1999 as its share of these equity commitments.

ALLIANCE PIPELINE DEBT FINANCING PLAN

Alliance has arranged bank debt financing for the two major aspects of the Alliance Pipeline project – the Alliance Canada Pipeline and the Alliance U.S. Pipeline.

The banks have provided a fully underwritten commitment to fund 70 percent of the currently estimated base capital cost and a cost overrun amount. In early March 1999, Alliance met the conditions to drawing under these debt commitments. As a consequence, the Partnership was not required to invest further equity capital in the Alliance Pipeline Project until the 70:30 debt-to-equity ratio was met, which occurred in September in the U.S. and November in Canada.

In June 1999, Alliance issued longer term bonds to replace a portion of the bank debt. The primary goal was to extend the term of the debt financing, fix interest rates and to remove a portion of the bullet payment that was required approximately seven years after the in-service date of the pipelines. The bond issuances of U.S. $300 million and CDN. $300 million were very well received and were completed at attractive yields.

no small feat

AUX SABLE DEBT FINANCING PLAN

Aux Sable anticipates arranging mid- to long-term debt financing to replace a portion of the equity commitments that have been provided by the owners and to provide working capital funding. Aux Sable will commence this process in the second quarter of 2000 and anticipates having debt financing in place prior to start-up of the Aux Sable Facilities. Fort Chicago anticipates that a portion of its equity obligation to the Aux Sable Facilities will be cancelled with the placement of this debt, which will result in the cancellation of a corresponding amount of bank debt commitments by Fort Chicago's bankers.

RATE OF RETURN ON THE ALLIANCE PROJECTS

The rate of return allowed on the Alliance Canada Pipeline and Alliance U.S. Pipeline was negotiated between Alliance and its shippers at the time of the open-season in late 1996, and approved by the FERC and NEB. Alliance was allowed a 12 percent return on equity on the base capital of Canadian $2,071 million for Alliance Canada Pipeline and U.S. $1,236 million for the Alliance U.S. Pipeline with an incentive

mechanism based on final capital costs. Such incentive varies, on a linear basis, the return on equity ± 1 percent for each ± 20 percent of capital costs up to a maximum of ± 2 percent. In conjunction with the Alliance shippers signing transportation agreements to replace the previous precedent agreements, Alliance agreed to modify the incentive mechanism such that Alliance will not receive return on the equity for any capital costs over 20 percent of the original base. However, Alliance would still be able to recover the return of equity capital, a return on the debt capital and a return of the debt capital under the transportation tolls for the full amount of the capital costs. Based on Alliance's presently projected capital costs, the return on equity is anticipated to be 11.2 percent for the Alliance Canada Pipeline and 10.9 percent for the Alliance U.S. Pipeline.

The Aux Sable Plant's income is unregulated and will vary primarily according to changes in the difference between its supply costs and the sales price of its products. The supply costs consist of shrinkage make-up gas and operating costs. Shrinkage make-up gas represents the cost of the natural gas which must be purchased to replace the energy equivalent of the natural gas liquids which are extracted from the natural gas processed by the Aux Sable Plant.

Aux Sable's revenues are tied to the prices it receives for ethane, propane and butane in the U.S. midwest area. These prices are in turn linked to Gulf Coast prices, subject to regional differences. Aux Sable has executed long-term supply contracts for all the ethane production. In addition, Aux Sable has marketing arrangements in place for propane and butane volumes in the lower demand summer months. Through these arrangements, Aux Sable has the necessary contractual arrangements in place to provide for attractive returns to the owners.

DISTRIBUTIONS

The Partnership will distribute "distributable cash" to Unitholders on a quarterly basis. The General Partner anticipates distributing distributable cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of the applicable quarter. Payments will be made on or before the 30th day after each record date. It is unlikely that there will be any distribution to Unitholders until after the Alliance Pipeline is in service, which is not expected prior to October 1, 2000. There is no assurance that the Alliance Pipeline will be placed into service by this date or at all.

Based on an in-service date of October 1, 2000, the first payment of distributable cash to Unitholders should occur in late January 2001. Any payment will require the consent of the Partnerships' lenders and Alliance meeting certain financial tests. There is no assurance that such conditions will be met or that the first distribution will occur in January 2001. The Partnership anticipates that the initial distribution will be between \$0.90 and \$1.10 per unit (annualized) based upon approximately \$0.80 to \$0.85 per unit of distributions from the Alliance Pipeline, \$0.20 to \$0.40 per unit of distributions from the Aux Sable Facilities, less \$0.15 to \$0.20 of administration and financing expenses. These estimates do not include any repayment of debt. The Aux Sable distribution is based on 10-year average margins for propane, butane and ethane in the U.S. midwest.

The final amount of debt financing by the Partnership will depend on the level of debt financing arranged by Aux Sable and the amount and timing of receipts of funds from the previously issued warrants. The amount of distributable cash is highly sensitive to the margin between the price of natural gas liquids in the U.S. midwest relative to the cost of gas in Chicago. This margin was at the high end of the range for most of 1999 and this has continued into early 2000.

OWNERSHIP RESTRICTIONS

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada) or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 percent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

RISK FACTORS

Investment in the Partnership is subject to a number of risks. There is a risk that a purchaser may lose some or all of his investment. Initially, the Partnership's sole asset will be its interest in the Alliance projects. Although the Alliance Pipeline project has received the regulatory approvals required to commence construction, the in-service date could be delayed, and therefore, income distributions would be delayed.

Although the Partnership has secured all the financing required to meet its equity commitment obligations to the Alliance projects, the agreements contain conditions to draw down on the facilities. Should the Partnership be unable to draw on the credit facilities, the Partnership would have to issue additional equity capital or sell a portion of its interest in the Alliance projects in order to satisfy its equity commitment obligations. Failure to meet the equity commitment obligations may result in the sale of the Partnership's interest in the Alliance projects at a significant loss.

Once the Alliance projects are completed, the business of the Partnership will be subject to the normal risks associated with the pipeline and natural gas liquids industries, including government and environmental regulations where applicable, price fluctuations of natural gas and natural gas liquids, availability of inlet natural gas, risk of default by shippers, competitive pressures, fluctuation of the Partnership's operating costs and fluctuations in the U.S.-Canada exchange rate. Furthermore, risks of substantial costs and liabilities relating to environmental claims are inherent in pipeline operations, and there can be no assurance that such costs or liabilities will not be incurred.

Distributions by the Partnership to the Unitholders will fluctuate, and there can be no assurance regarding the amounts to be distributed. The revenue of the Partnership will be based upon tolls charged pursuant to transportation service agreements, which end 15 years after the in-service date, unless renewed. Therefore, beyond the initial term of such agreements, the revenues derived by the Partnership will depend upon demand for natural gas in markets served by the Alliance Pipeline and the availability of competitive alternatives for transportation of natural gas to such markets.

The Partnership may issue an unlimited number of additional Class A Units without the approval of the Unitholders, such that the Unitholders may be subject to a dilution of their interests. A Unitholder, to maintain limited liability, must not take part in the management or control of the Partnership's business.

Management's Report

The financial statements of Fort Chicago Energy Partners L.P. have been prepared by the management of Fort Chicago Energy Management Ltd. (the "General Partner") in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Actual results may differ from these estimates and judgements. Management has ensured that the financial statements are presented fairly in all material respects.

The financial statements are prepared on a going concern basis and, as outlined in the notes to the financial statements, certain future events must occur or the stated amounts of assets and liabilities would be reflected on a different basis.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving the financial statements and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Board of Directors of the General Partner has appointed an Audit Committee to meet periodically during the year with management and the external auditors. The Audit Committee reviews with management and the independent external auditors the annual financial statements prior to submission to the Board of Directors for final approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with Canadian generally accepted accounting principles.

Guy J. Turcotte
CHAIRMAN AND C.E.O.

Stephen H. White
PRESIDENT AND C.F.O.

FEBRUARY 25, 2000

Auditors' Report

TO THE BOARD OF DIRECTORS OF FORT CHICAGO ENERGY MANAGEMENT LTD.
AS THE GENERAL PARTNER OF FORT CHICAGO ENERGY PARTNERS L.P.

We have audited the Consolidated Statement of Financial Position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 1999 and 1998 and the Consolidated Statements of Income and Undistributed Income and Cash Flows for the years then ended. These financial statements are the responsibility of the management of the Partnership's General Partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS
CALGARY, CANADA • FEBRUARY 25, 2000

Consolidated Statement of Financial Position

AS AT DECEMBER 31 ($ THOUSANDS)	1999	1998
ASSETS		
Current assets		
Cash and short-term investments	$ **81,002**	$ 229,805
Receivables	**45**	141
Prepaid expenses	**140**	–
	81,187	229,946
Investment in Alliance projects *(NOTE 2)*	**377,347**	168,596
Deferred expenses *(NOTE 4)*	**4,028**	3,767
Office equipment	**38**	49
	$ **462,600**	$ 402,358
CURRENT LIABILITIES		
Payables	$ **2,987**	$ 529
NON-CURRENT LIABILITIES		
Bank debt	**30,160**	–
PARTNERS' EQUITY		
Partners' capital account *(NOTE 3[A])*	**379,155**	378,577
Warrants *(NOTE 3[G])*	**653**	653
Undistributed income	**49,645**	22,599
	429,453	401,829
	$ **462,600**	$ 402,358

no small feat

APPROVED BY THE BOARD OF DIRECTORS OF FORT CHICAGO ENERGY MANAGEMENT LTD.
AS THE GENERAL PARTNER OF FORT CHICAGO ENERGY PARTNERS L.P.

By: Guy J. Turcotte
DIRECTOR

By: Stephen W. C. Mulherin
DIRECTOR

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income and Undistributed Income

FOR THE YEAR ENDED DECEMBER 31 ($ THOUSANDS, EXCEPT PER UNIT DATA)		1999		1998
Income				
Interest	**$**	**9,221**	$	14,942
Expenses				
Administration		**(1,312)**		(1,372)
Finance		**(5,410)**		–
Depreciation and amortization		**(1,226)**		(21)
Taxes		**(899)**		–
Net income before equity income		**374**		13,549
Equity income of Alliance Pipeline project *(NOTE 1)*		**26,672**		8,680
Net income for the period		**27,046**		22,229
Undistributed income at the beginning of the period		**22,599**		370
Undistributed income at the end of the period	**$**	**49,645**	$	22,599
Net income per Class A Unit				
Basic	**$**	**0.41**	$	0.34
Fully diluted	**$**	**0.41**	$	0.34

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31 ($ THOUSANDS, EXCEPT PER UNIT DATA)		1999		1998
Operating				
Net income for the period	**$**	**27,046**	$	22,229
Less: Equity income of Alliance Pipeline project		**(26,672)**		(8,680)
Add: Depreciation and amortization		**1,226**		21
Cash flow		**1,600**		13,570
Financing				
Share capital		**578**		184,767
Bank debt		**30,160**		–
Subscription receivable		**–**		126,213
Issue costs		**–**		(5,143)
Changes in non-cash working capital		**2,414**		(1,199)
		33,152		304,638
Investing				
Investment in Alliance projects		**(182,079)**		(124,464)
Deferred expenses		**(1,461)**		(3,113)
Office equipment		**(15)**		(71)
		(183,555)		(127,648)
Increase (decrease) in cash and short-term investments		**(148,803)**		190,560
Cash and short-term investments at the beginning of the period		**229,805**		39,245
Cash and short-term investments at the end of the period	**$**	**81,002**	$	229,805
Cash flow per Class A Unit				
Basic	**$**	**0.02**	$	0.21
Fully diluted	**$**	**0.02**	$	0.21
Supplemental disclosure of cash flow information:				
Interest paid	**$**	**1,219**	$	–
Income taxes paid	**$**	**1,844**	$	–

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements

AS AT DECEMBER 31, 1999

1 BASIS OF PRESENTATION AND BUSINESS OF THE PARTNERSHIP

Fort Chicago Energy Partners L.P. (the "Partnership") is a limited partnership created under the laws of the Province of Alberta on October 9, 1997.

The Partnership was created to acquire the interests in the Alliance Projects held by Chauvco Resources Ltd. ("Chauvco") and all agreements related thereto. The business of the Partnership consists solely of directly or indirectly participating in the transportation, storage, marketing or processing of hydrocarbons and directly or indirectly investing and managing investments in other persons who are engaged primarily in these activities or carrying on the business of a financial intermediary.

Fort Chicago Energy Management Ltd., as General Partner, is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership.

The Consolidated Financial Statements include the accounts of the Partnership and its wholly owned subsidiary partnerships and corporations.

The Alliance projects consist of the Alliance Pipeline project and the Aux Sable Plant project. The Alliance Pipeline project involves the design, construction and operation of a mainline gas pipeline from northeastern British Columbia to points near Chicago, Illinois. The Aux Sable Plant project involves the construction and operation of a natural gas liquids extraction and fractionation facility near the terminus of the Alliance Pipeline project.

The Partnership's interest in the Alliance projects is accounted for using the equity method, whereby the investment is recorded at the original cost plus the Partnership's share of income or loss less any distributions received. The Alliance Pipeline project follows the regulatory accounting method. For the period ended December 31, 1999, the Partnership recorded $26,672,000 (1998 – $8,680,000) as its share of the income of the Alliance Pipeline project.

As the Partnership is not a taxable entity, all income for tax purposes is allocated to the partners each year. Certain subsidiary partnerships are taxable in the U.S. and tax expense has been recorded for U.S. tax liabilities. A subsidiary corporation is taxable in Canada and federal and provincial capital taxes have been reflected in the financial statements of the subsidiary corporation.

no small feat

2 INVESTMENT IN ALLIANCE PROJECTS

At various times in 1997, the Partnership acquired the interests of Chauvco, Summit Resources Limited ("Summit") and Beau Canada Exploration Ltd. ("Beau") in the Alliance and Aux Sable projects. The Partnership has invested the following amounts in the Alliance Pipeline and Aux Sable Plant projects since inception and recorded the following amounts of equity income.

($ THOUSANDS)	INVESTMENT	EQUITY INCOME	TOTAL
1997	$ 35,208	$ 244	$ 35,452
1998	124,464	8,680	133,144
1999	182,079	26,672	208,751
	$ 341,751	$ 35,596	$ 377,347

The following summarizes the financial information of the Alliance and Aux Sable entities:

($ THOUSANDS)		1999		1998
STATEMENT OF OPERATIONS				
Allowance for funds used during construction	**$**	**88,960**	$	30,392
STATEMENT OF FINANCIAL POSITION				
Assets				
Current assets	**$**	**279,699**	$	84,140
Construction in progress		**3,940,302**		596,345
Other assets		**87,864**		52,760
Total assets	**$**	**4,307,865**	$	733,245
Liabilities and Unitholders' equity				
Current liabilities	**$**	**271,914**	$	72,085
Long-term liabilities		**2,530,320**		2,054
Deferred income taxes		**43,387**		12,240
Unitholders' equity		**1,462,244**		646,866
Total liabilities and Unitholders' equity	**$**	**4,307,865**	$	733,245

3 PARTNERS' EQUITY

(a) Partners' capital account

(i) Authorized

The Partnership is authorized to issue an unlimited number of Class A limited partnership units and one Class B limited partnership unit.

(ii) Issued

		CLASS A UNITS	
($ THOUSANDS)	NUMBER		VALUE
December 31, 1997	1,293,434	$	5,426
Exercise of special warrants *(NOTE 3 [B])*	33,656,926		193,527
Chauvco rights offering *(NOTE 3 [C][I])*	26,142,058		155,545
Summit rights offering *(NOTE 3 [C][II])*	4,898,951		29,149
Issue costs	–		(5,143)
Eligible Optionholder Warrants *(NOTE 3 [F])*	12,240		73
December 31, 1998	66,003,609		378,577
Eligible Optionholder Warrants *(NOTE 3 [F])*	97,220		578
December 31, 1999	66,100,829	$	379,155

(b) Special warrants

(i) Chauvco shareholders

On October 28, 1997, the Partnership completed private placements with three shareholders of Chauvco holding an aggregate of 22,774,974 common shares of Chauvco. Each shareholder purchased special warrants of the Partnership by way of private placement at a price of $5.75 per special warrant. The total proceeds to the Partnership were $130,956,101, representing approximately 47% of the total proceeds to be raised under the Chauvco rights offering as noted in (c) (i) below. Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial right under the Chauvco rights offering. Each special warrant entitled the holder thereof to acquire one Class A Unit.

On December 31, 1997, 1,212,972 special warrants were exercised for Class A Units and the Partnership received $4,548,645. On January 9, 1998, the Partnership received the remaining subscription receivable of $80,857,507 and issued 21,562,002 Class A Units upon the exercise of the special warrants.

(ii) Summit Group

On December 2, 1997, the Partnership issued 3,060,870 special warrants by way of private placement to Summit at a price of $5.75 per special warrant. In addition, on December 2, 1997, the Partnership issued 3,807,063 special warrants by way of private

placement to certain of the shareholders of Summit or their nominees at a price of $5.75 per special warrant. Summit and the Summit shareholders subscribing for special warrants are collectively referred to as the "Summit Group." Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial rights under the Summit rights offering. The total proceeds of $39,490,615 was utilized to purchase Summit's 4.811% interest in the Alliance projects for approximately $6.4 million and to fund future commitments to the Alliance projects.

Each special warrant entitled the holder thereof to acquire one Class A Unit. On December 31, 1997, one member of the Summit Group exercised 80,461 special warrants for Class A Units and the Partnership received $301,729. On January 9, 1998, the Partnership received the remaining subscription receivable of $25,453,028 and issued 6,787,472 Class A Units upon the exercise of the special warrants.

(iii) Beau

On November 24, 1997, the Partnership issued 5,307,452 special warrants by way of private placement to Beau at a price of $5.75 per special warrant. The total proceeds of $30,517,849 was utilized to purchase Beau's 2.17% interest in the Alliance projects for approximately $2.9 million and to fund future commitments to the Alliance projects.

Each special warrant entitled the holder thereof to acquire one Class A Unit. On January 9, 1998, the Partnership received the subscription receivable of $19,902,945 and issued 5,307,452 Class A Units upon the exercise of the special warrants.

	NUMBER	VALUE	SUBSCRIPTION RECEIVABLE
Issued to Chauvco shareholders	22,774,974	$ 130,956,101	$ 85,406,153
Issued to Summit Group	6,867,933	39,490,615	25,754,749
Issued to Beau	5,307,452	30,517,849	19,902,945
Exercised for Class A Units	(1,293,433)	(7,437,240)	(4,850,374)
December 31, 1997	33,656,926	193,527,325	126,213,473
Exercised for Class A Units	(33,656,926)	(193,527,325)	(126,213,473)
December 31, 1998	–	$ –	$ –

no small feat

(c) Rights offerings

(i) Chauvco rights offering

On December 3, 1997, the Partnership filed a prospectus to qualify the distribution of 26,142,058 Class A Units by way of a rights offering to shareholders of Chauvco at a price of $5.95 per unit for proceeds of $155,545,245. On January 9, 1998, the Chauvco rights offering closed and the Partnership received the proceeds.

(ii) Summit rights offering

On December 3, 1997, the Partnership filed a prospectus to qualify the distribution of 4,898,951 Class A Units by way of a rights offering to shareholders and optionholders of Summit at a price of $5.95 per unit for proceeds of $29,148,767. On January 9, 1998, the Summit rights offering closed and the Partnership received the proceeds.

(d) Ownership restrictions

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada) or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 percent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

(e) Unitholders rights plan

The Partnership has a Unitholders rights plan (the "Plan"). Under the Plan, one right will be issued with each Class A Unit issued. The rights remain attached to the Class A Units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the Class A Units of the Partnership, the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Class A Units of the Partnership at a 50% discount from the then market price. The rights are not triggered by a "Permitted Bid," as defined in the Plan.

(f) Eligible Optionholder Warrants

On December 15, 1997, the holders of options to acquire common shares of Chauvco received for no consideration Eligible Optionholder Warrants of the Partnership on a one-to-one basis. This resulted in the issuance of 2,429,250 Eligible Optionholder Warrants. Subject to certain limitations, each Eligible Optionholder Warrant entitles the holder thereof to acquire one Class A Unit at a price of $5.95. The Eligible Optionholder Warrants will only be exercisable during the period from the date of issuance until the date which is 180 days after the in-service date for the Alliance projects. During 1999 97,220 (1998 – 12,240) Eligible Optionholder Warrants were exercised for proceeds of $578,459 (1998 – $72,828).

(g) Warrants

In conjunction with the arrangement of the credit facilities described in Note 5 below, the Partnership issued 495,000 warrants. Each warrant entitles the holder thereof to acquire one Class A Unit at a price of $6.65. Each warrant will expire on the later of (i) one year after the in-service date for the Alliance Pipeline project and (ii) one year after the retirement of the subordinated credit facilities described in Note 5 below provided that the warrants shall expire no later than January 25, 2004. In 1998, the Partnership recognized $653,400 as the value of these warrants.

4 DEFERRED EXPENSES

($ THOUSANDS)		**1999**		1998
Financing expenses	**$**	**2,094**	$	3,461
Foreign exchange loss		**1,567**		–
Other		**367**		306
	$	**4,028**	$	3,767

(a) Financing expenses

During 1998, the Partnership incurred cash expenses totalling $2,807,272 and recognized $653,400 as the value of warrants issued to establish the credit facilities described in Note 5 below. In 1999, the Partnership was refunded $166,956 of the costs to establish the credit facilities and recognized amortization of $1,200,000. The Partnership will amortize the remaining financing expenses over 21 months.

(b) Foreign exchange loss

The Partnership has deferred the foreign exchange loss attributed to the purchase of U.S. dollars in early 1999 to fund its equity commitments to the Alliance and Aux Sable projects. The foreign exchange loss will be reflected as Investment in Alliance projects as the funds are expended in the projects.

(c) Other

During the year, the Partnership paid legal expenses totalling $23,535 (1998 – $212,368) for monitoring the regulatory hearings of the Alliance Pipeline project and $37,125 (1998 – $93,570) for consulting fees as part of preparing a business plan for the Aux Sable project. The Partnership will amortize the expenditures over 10 years commencing on the in-service date of the Alliance projects.

5 BANK CREDIT FACILITIES

On December 3, 1998, the Partnership entered into two credit agreements with a syndicate of banks to provide credit facilities to the Partnership in the amount of Canadian $40 million and U.S. $70 million as follows:

		ALLIANCE PIPELINE PROJECT COST OVERRUNS		AUX SABLE PROJECT
		CANADIAN $		*U.S. $*
Senior credit facilities	$	25,000,000	$	44,000,000
Subordinated credit facilities		15,000,000		26,000,000
	$	40,000,000	$	70,000,000

As at December 31, 1999, the Partnership had drawn U.S. $20,896,470 and had U.S. $30,000,000 of Letters of Credit under the Aux Sable construction facilities and had Canadian $20,000,000 and U.S. $13,000,000 of Letters of Credit under the Alliance pipeline facilities.

The Partnership delivered a general security agreement and its subsidiary partnerships delivered guarantees in favour of the lenders as security for the Partnership's obligations under the credit facilities. The Partnership is drawing upon these credit facilities to fund its share of the construction costs of an expanded Aux Sable project, as well as cost overrun credit support required for the Alliance Pipeline project.

The interest rate on outstanding debt will vary in relationship to the lenders' prime interest rates. The Partnership has agreed to pay standby and letter of credit fees varying from 1.2% to 4% per annum of the undrawn facilities and any Letters of Credit issued under the facilities. The Partnership has provided covenants customary to bank credit facilities and include the maintenance of consolidated tangible net worth of at least $325,000,000. The credit facilities mature one year from the earlier of the in-service date of the Alliance Pipeline project and October 1, 2000, but may be extended for an additional six-month period with the approval of the lenders.

6 UNIT APPRECIATION RIGHTS CASH BONUS PLAN

In 1997, the Partnership issued an aggregate of 846,666 unit appreciation rights to Directors, officers and employees of the General Partner and the Partnership. All of the unit appreciation rights granted under the plan have an exercise price of $5.75 and expire on December 31, 2003. In addition, such unit appreciation rights vest as follows: 33 1/3% on the date that all regulatory approvals required to commence construction of the Alliance Pipeline project are obtained; 33 1/3% on the in-service date of the Alliance Pipeline project; and 33 1/3% on December 31, 2000. All regulatory approvals required to commence construction of the Alliance Pipeline project were obtained on December 3, 1998 and, accordingly, 33 1/3% of the unit appreciation rights granted under the plan vested on that date. The value of the vested unit appreciation rights as at December 31, 1999, was $423,000 (1998 – $127,000).

7 COMMITMENT TO ALLIANCE PROJECTS

On December 31, 1999, the Partnership had equity commitments to various entities comprising the Alliance projects in the amount of Canadian $71.7 million and U.S. $81.6 million.

8 FINANCIAL INSTRUMENTS

The Partnership's financial assets and liabilities as at December 31, 1999, included cash, accounts receivable, accounts payable and bank debt. Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value. The fair value of bank debt approximates its recorded value as it bears interest at current market rates. The Partnership has entered into variable rate agreements for all debt financing.

Corporate Information

Board of Directors

Guy J. Turcotte
CALGARY, ALBERTA

John E. Feick[2][3]
CALGARY, ALBERTA

Verne G. Johnson[1][2][3]
CALGARY, ALBERTA

Arthur V. Mauro[1][3]
WINNIPEG, MANITOBA

Stephen W.C. Mulherin[1][2][3]
CALGARY, ALBERTA

Officers

Guy J. Turcotte
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

Stephen H. White
PRESIDENT AND
CHIEF FINANCIAL OFFICER

Renée M. Ratke
SECRETARY
PARTNER, BENNETT JONES

1 MEMBER OF THE AUDIT COMMITTEE
2 MEMBER OF THE COMPENSATION COMMITTEE
3 MEMBER OF THE CORPORATE GOVERNANCE COMMITTEE

Head Office

FORT CHICAGO ENERGY PARTNERS L.P.
SUITE 975, UNITED PLACE
808 FOURTH AVENUE S.W.
CALGARY, ALBERTA T2P 3E8

PHONE: (403) 296-0140
FAX: (403) 296-0122

Investor Relations

Contact: Lori Harper
EXECUTIVE ASSISTANT

PHONE: (403) 296-0135
FAX: (403) 296-0122
EMAIL: lharper@fortchicago.com

Auditors

PricewaterhouseCoopers LLP
CALGARY, ALBERTA

Solicitors

Bennett Jones
CALGARY, ALBERTA

Bankers

The Toronto-Dominion Bank
CALGARY, ALBERTA

Bank of Nova Scotia
CALGARY, ALBERTA

Alberta Treasury Branches
EDMONTON, ALBERTA

Caisse de Depot et Placement du Quebec, Capital D'Amerique
MONTREAL, QUEBEC

Transfer Agent and Registrar

Montreal Trust Company of Canada
VANCOUVER, CALGARY, WINNIPEG, MONTREAL, TORONTO

Stock Exchange Listings

The Toronto Stock Exchange
Trading Symbol: FCE.UN

1999 Income Tax Information

		ALLOCATED TO CLASS A UNITHOLDERS AS OF				
	TOTAL 1999	*MARCH 31*	*JUNE 30*	*SEPT. 30*	*DEC. 31*	*TOTAL*
Net income (loss)	$(19,079,669)	$ (0.072268)	$ (0.072254)	$ (0.072179)	$ (0.072161)	$ (0.288862)
Capital cost allowance	471,406	0.001786	0.001785	0.001783	0.001783	0.007137
Foreign tax paid	710,656	0.002692	0.002691	0.002688	0.002688	0.010759
Charitable donations	5,565	0.000021	0.000021	0.000021	0.000021	0.000084
Capital gain (loss)	(3,684,334)	(0.013955)	(0.013952)	(0.013938)	(0.013935)	(0.055780)

For updates on the continuing progress of the projects, please visit the following Web sites:

www.fortchicago.com

www.alliance-pipeline.com

www.auxsable.com

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held on May 10, 2000 at 4:00 p.m. in the Strand/Tivoli Room, The Metropolitan Centre, 333 – 4th Ave S.W. Calgary Alberta T2P 0H9. All shareholders are encouraged to attend.

of Alliance Pipeline and Aux Sable.

Fort Chicago Energy Partners L.P.

Suite 975, United Place
808 Fourth Avenue S.W.
Calgary, Alberta
Canada T2P 3E8
Phone: (403) 296-0140
Fax: (403) 296-0122
Internet: www.fortchicago.com

Printed in Canada